

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

May 29, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

May 29, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Powell County Sheriff as of May 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,081,836 for the districts for 2004 taxes, retaining commissions of \$86,377 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,988,691 to the districts for 2004 Taxes. Taxes of \$5,128 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Used Personal Funds Of \$1,029 To Reimburse His Tax Account Resulting From Taxpayers Not Being Charged Penalties For Late Payment Of Taxes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bobby Drake, Powell County Judge/Executive
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the Powell County Sheriff's Settlement - 2004 Taxes as of May 29, 2005. This tax settlement is the responsibility of the Powell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Powell County Sheriff's taxes charged, credited, and paid as of May 29, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bobby Drake, Powell County Judge/Executive
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Used Personal Funds Of \$1,029 To Reimburse His Tax Account Resulting From Taxpayers Not Being Charged Penalties For Late Payment Of Taxes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 6, 2006

POWELL COUNTY
JOE MARTIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

May 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 267,332	\$ 248,040	\$ 914,991	\$ 361,035
Tangible Personal Property	11,823	14,553	40,465	43,342
Intangible Personal Property				10,441
Fire Protection	1,183			
Increases Through Exonerations	130	121	446	176
Franchise Corporation	50,936	58,269	173,779	
Additional Billings	392	363	1,370	2,175
Oil and Gas Property Taxes	115	107	395	156
Limestone, Sand, and Mineral Reserves	434	403	1,486	586
Clay Reserves Taxes	56	52	193	76
Penalties	3,375	3,126	11,509	4,830
Adjusted to Sheriff's Receipt	(138.00)	(47.00)	(416.00)	(405.00)
Gross Chargeable to Sheriff	<u>\$ 335,638</u>	<u>\$ 324,987</u>	<u>\$ 1,144,218</u>	<u>\$ 422,412</u>
<u>Credits</u>				
Exonerations	\$ 1,499	\$ 1,403	\$ 5,131	\$ 2,160
Discounts	3,739	3,515	12,741	5,689
Delinquents:				
Real Estate	16,224	15,053	55,530	21,911
Tangible Personal Property	15	18	49	66
Oil Taxes	101	94	345	136
Total Credits	<u>\$ 21,578</u>	<u>\$ 20,083</u>	<u>\$ 73,796</u>	<u>\$ 29,962</u>
Taxes Collected	\$ 314,060	\$ 304,904	\$ 1,070,422	\$ 392,450
Less: Commissions *	<u>13,635</u>	<u>12,958</u>	<u>42,817</u>	<u>16,967</u>
Taxes Due	\$ 300,425	\$ 291,946	\$ 1,027,605	\$ 375,483
Taxes Paid	299,101	290,763	1,023,527	375,300
Refunds (Current and Prior Year)	<u>275</u>	<u>255</u>	<u>927</u>	<u>183</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 1,049</u>	<u>\$ 928</u>	<u>\$ 3,151</u>	<u>\$ 0</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
JOE MARTIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
May 29, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,001,414
4% on	\$	1,070,422

** Special Taxing Districts:

Library District	\$	406
Health District		224
Extension District		<u>298</u>
Due Districts	\$	<u><u>928</u></u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

May 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 29, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
May 29, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 27, 2004 through May 29, 2005.

Note 4. Interest Income

The Powell County Sheriff earned \$1,947 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Powell County Sheriff collected \$19,988 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of March 6, 2006, the Sheriff owed \$2,105 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Powell County Sheriff collected \$2,088 of advertising costs and \$2,055 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
JOE MARTIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 29, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Used Personal Funds Of \$1,029 To Reimburse His Tax Account Resulting From Taxpayers Not Being Charged Penalties For Late Payment Of Taxes

The Sheriff did not charge the correct penalties for taxpayers who paid their taxes during the penalty collection period and some of those taxpayers were allowed a 2% discount of tax base due. Tax collection began in November 2004 and during that month a 2% discount was given on regular tax collections. During December 2004, taxpayers paid the base amount and in subsequent months penalties should have been applied. January 2005 collections are considered delinquent and the amount due should have been calculated using the base amount plus a 5% penalty. KRS 134.020(4) states any taxes not paid by the date when they become delinquent are subject to a penalty of 10%. The Sheriff shall collect the penalty. Since the Sheriff did not collect the penalty based on the tax collections schedule the tax settlement included the charge for the base amount plus penalties and reflects additional money due taxing districts and his fee account. Testing indicated the Sheriff allowed \$1,029 of discounts to be given after the appropriate discount period. The Sheriff reimbursed the tax account \$1,029 of personal funds. We recommend the Sheriff collect all taxes based on the tax collection schedule unless a waiver was appropriately approved and a discount should not be given except during the first month of collections.

Sheriff's Response:

We were unaware of the waiver form, but are implementing this form now!

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We recommend the Sheriff implement the following compensating controls that would help offset the lack of adequate segregation of duties:

POWELL COUNTY
JOE MARTIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of May 29, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS (Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- Daily deposits be periodically recounted and deposited by the Sheriff
- Periodic Reconciliation of reports to source documents by the Sheriff
- All disbursement checks to be signed by two people, one being the Sheriff
- The Sheriff examine all disbursement checks prepared by an employee for proper documentation
- The Sheriff mail or deliver tax payments to districts
- The Sheriff prepares the bank reconciliation.

Sheriff's Response:

Okay

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Powell County Sheriff's Settlement - 2004 Taxes as of May 29, 2005, and have issued our report thereon dated March 6, 2006. The Sheriff prepares his settlement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County Sheriff's Settlement - 2004 Taxes as of May 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Used Personal Funds Of \$1,029 To Reimburse His Tax Account Resulting From Taxpayers Not Being Charged Penalties For Late Payment Of Taxes

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 6, 2006

